

WORK AND PENSIONS SELECT COMMITTEE

INQUIRY INTO THE IMPACT OF THE CHANGES TO HOUSING BENEFIT ANNOUNCED IN THE JUNE 2010 BUDGET

BRITISH PROPERTY FEDERATION EVIDENCE

1 Introduction

1.1 The British Property Federation is the trade association for property investors in the UK. It represents landlords in the commercial and residential sectors. So far as residential is concerned this means a number of affiliated national and regional landlord associations across England, who between them represent 15,000 landlords. It is also the representative body for larger private sector landlords, who although few in number, will have 100,000 private rented sector homes under their management. The BPF also has a number of housing associations, private student accommodation investors and support organisations such as agents and lawyers in membership. Along with the National Landlords Association and Residential Landlords Association we are one of the main three residential landlord representative organisations in the UK.

2. The need for reform

2.1 The new Government inherited a local housing allowance (LHA) system that was always going to cost more in comparison with what had gone before. It is true that rents in some areas have adjusted towards the local housing allowance rates and in markets where there are significant claimants this is seen as the 'going rate'. This should come as no surprise, however. Landlord organisations had forewarned this was a likely consequence of moving to the local housing allowance system. However, presumably policymakers at the time accepted this as a factor, but price worth paying for the other objectives of reform. Another objective behind LHA was to simplify a system that had previously been based on individual rent assessments that were time-consuming and labour intensive to collect and had led to longer processing times, something that the local housing allowance system has helped improve significantly. A second objective was to make claimants more 'work ready' by making them responsible for their rent payments. There is little evidence that we know of that the second of these objectives has been largely achieved.

3. Who is affected?

3.1 The current Government's reforms aimed at 2011/12 seem to have two broad objectives; to reduce the housing benefit bill and therefore contribute to deficit reduction; and, to create a more level playing field between the property that those in low paid employment and those out of work can afford, in turn providing greater incentive to be in work.

3.2 De facto, in pure cost terms the first of these objectives will be achieved, but that does not take account of other consequences that will themselves have

costs and we hope to show that the objective of work incentive is over-exaggerated.

- 3.3 It is important to understand who will be affected by the cuts in Local Housing Allowance, both because the stark one million figure, is made up of many households' personal circumstances, but also because understanding who is affected will help explain the likely impacts, consequences and actions.
- 3.4 A majority of housing benefit claimants are in the social rented sector, claiming rent rebate or rent allowance (approx. 1.5m and 1.7m respectively). About 1m claimants are on Local Housing Allowance, with a further 450k in the private rented sector on the 'old' housing benefit system or on regulated rents.

Table 1

Caseload (thousands)	2008-09 Out-turn	2009-10 Provisional	2010-11 Forecast	2011-12 Forecast	2012-13 Forecast	2013-14 Forecast	2014-15 Forecast
Rent Rebate (Local Authority)	1,533	1,512	1,500	1,440	1,380	1,328	1,304
Rent Allowance:							
RSL	1,583	1,719	1,795	1,760	1,706	1,655	1,636
Private Sector	1,049	1,316	1,456	1,468	1,447	1,420	1,410
<i>Regulated Private Sector :</i>	56	52	48	43	39	36	33
<i>Deregulated Private Sector :</i>							
Local Housing Allowance	360	841	1,120	1,239	1,278	1,277	1,297
Other Private Rental Sector	633	423	288	185	130	107	80
Total Housing Benefit Caseload:	4,166	4,547	4,750	4,667	4,534	4,403	4,350

Source: June 2010 Budget Forecasts, DWP

- 3.5 The popular perception is that benefit claimants are largely the result of some long gone recession. Table 1 illustrates that many of those on LHA are not in this category, but claimants as a result of the most recent downturn. Even allowing for switching from the 'old system' to LHA there is growth of 400,000 in the number of LHA claimants between 2008/9 and projections for 2010-2011. A statistic that is missing for the DWP impact assessment, and would be helpful in casting further light on who is affected would be to look at those affected and provide a time-profile of the age of their housing benefit claim.
- 3.6 Many LHA claimants are also 'in-work' claimants and thus to an extent reliant on the accessibility of their home to their workplace. It is hard to draw out a precise figure on this from the DWP impact assessment and this is something that should be rectified. At present the figures listed categorise those affected by the reforms, by benefit claims (income support, job seekers allowance), with a residual category of 'others' at just below 400,000. Presumably most of these claimants are 'in work'?
- 3.7 Another perception is perhaps that this is an issue mainly linked to low demand areas of industrial decline. Annex 1 represents the statistics from the DWP impact assessment in map form. It illustrates that the impact of the package of reforms will hit many areas of significant housing and rental demand. Roughly speaking, half of current LHA claimants live south of Watford.
- 3.8 A third element to this is that almost half (450,000) of the 1 million claimants that will see their LHA cut by the 2011/12 package of reforms are living with dependants.

4. Consideration of wider demand

- 4.1 One of the surprising aspects to the DWP impact assessment is no consideration of the wider property market, demand for rented accommodation, and how that affects the ability of claimants to access property at or below the 30th centile rent.
- 4.2 The Federation has tried to broach that question by examining some high demand areas of housing. Table 2 illustrates research that Steve Wilcox and Hometrack published in 2007¹ looking at the size of intermediate markets by local authority area and compares this with the number of LHA claimants in those areas requiring a 2 bedroom property or more. We have selected certain high demand areas. The figures in % are the proportion of younger working households that cannot access what the research termed the Wide Intermediate Housing Market – defined as all younger working households unable to buy at lower quartile prices for two/three bedroom homes, and therefore prime candidates for renting privately.

Table 2 Demand from claimants and young working households

Local authority	LHA claimants for a 2 bed plus home	The proportion of younger working households unable to buy at the lower quartile house prices	The number of younger working households unable to buy at the lower quartile house prices
East Lindsey	1730	60.7%	6570
Broxbourne	810	71.4%	5539
Colchester	1550	56.6%	9379
Brent	5410	76.6%	16556
Waltham Forest	3930	72.4%	18682
Trafford	1250	51.4%	11352
Brighton and Hove	4660	71.7%	23052
Slough	2030	65.9%	9232
Southampton	2270	51.9%	15662
Cornwall	6220	73.8%	28283
Teignbridge	1980	74.3%	7038
Birmingham	11880	41.8%	35313
Harrogate	1090	65.1%	10501
Edinburgh	5270	48.5%	29206
Pembrokeshire	1120	64.1%	6218

- 4.3 As the table shows, in some areas, for example Harrogate and Trafford, for every LHA claimant family there could be close to 10 times the number of working families chasing a 2-bed plus property to rent. In many other areas in the table the ratio is over 6:1.

¹ Can't Buy Can Rent, S Wilcox and R Donnell, Hometrack, 2007, see http://www.hometrack.co.uk/documents/Steve_Wilcox/cantbuycanrent.pdf

- 4.4 Other sources also illustrate that demand for private rented housing is strong in most areas. For example, 70% of ARLA member offices say that there are more tenants than available properties.² Indeed, even in those areas where LHA recipients are able to afford property to rent, Shelter research has shown that landlords occasionally insert additional hurdles which put LHA tenants at a further disadvantage compared to individuals who are able to afford to pay their own rent³.
- 4.5 The projection in table 1 also illustrate that 150,000 additional claimants will have to be absorbed by the private rented sector over the coming year. Insufficient attention seems to have been paid as to whether the sector can absorb such numbers, and whether the competing forces of demand and Government desires to cuts rents will deliver the projected savings.
- 4.6 What is clear from table 2 and the map in Annex 1 is that many of the areas with high levels of LHA claimants are also areas of high demand for housing. Places like Cornwall, most other parts of the South West, London and its surrounds, Brighton, Colchester, Harrogate and so on.

How will landlords react to the reforms?

- 5.1 From the prior analysis it is difficult to generalise how landlords will react, much will depend on local market conditions. The key point to emphasise again is that this is not a benefit that is paid to people just in areas of low housing demand, but one that has significant concentrations in high demand areas.
- 5.3 There are two sources of data we are able to draw upon. One an independent market research company, BDRC, which conducts a tracking survey of 500 landlords, ascertaining their views on various issues once a quarter.⁴ The other is a survey conducted by the Residential Landlords Association, one of the largest landlord organisations in the UK.
- 5.4 The most recent figures we have from BDRC claim that 36 percent of landlords will not consider renting to benefit claimants. And only 14 percent of landlords offer tenancies to those on housing benefits. These figures have stayed relatively stable over the last few years.
- 5.5 In addition, landlords are already experiencing a rise in rental arrears. It is reported that 34 percent of landlords have experienced rental arrears in the last 12 months. BDRC also state that landlords that have experience with arrears are more likely to have tenants on housing benefit; 41 percent of landlords that rent to housing benefit claimants experienced rental arrears. Only 24 percent of landlords that do not rent to housing benefits have experienced arrears. Landlords that own a small amount of properties are disproportionately affected by rental arrears. Many feel that renting to benefit recipients is risking their own financial wellbeing.
- 5.6 BDRC's latest report also found that landlords believe capping LHA payments will lead to increased arrears (52%). As a result, a third said they would scale

² ARLA Press Release, 16th July 2010, see: http://www.arla.co.uk/events/news_details.aspx?id=142

³ Shelter research briefing (Feb 2009): 'A postcode lottery – Part 1 of a study monitoring the implementation of Local Housing Allowance'

⁴ BDRC Continental Landlords Panel, Quarter 2 2010

back letting to LHA tenants, and 59% thought that the reform package of measures would lead to decreased availability for these tenants.

- 5.7 For some landlords adjusting rent will be difficult. This may or may not be feasible with about 20 percent of landlords claiming they break even or experience a loss with their rental property. Only 30 percent of landlords make enough from letting property to save money, with many smaller landlords attracted to residential renting for its capital gain. Contrary to perhaps popular opinion residential property is not a particularly high yielding asset income returns averaged only 2.7% in 2009 according to IPD, whereas capital returns were 8.1%. The long run average net yield is a little over 3% and must take account of voids, maintenance, servicing debt, etc.
- 5.8 A lot has been made of landlords 'overcharging'. It is worth stressing that rents used by the Valuation Office Agency will be evidenced in the market place and by their nature historical. Although, some landlords in high benefit areas will be paying the 'going-rate', rents themselves being quoted by the VOA will be behind the times and won't reflect landlords in the market who have not got around to a rent review. Landlords 'over-charging' has been the focus of much of the Parliamentary debate thus far. It would be interesting to know from the DWP what proportion of claimants are actually being charged the full Local Housing Allowance rent?
- 5.9 The RLA statistics are based on an August 2010 survey, which was responded to by 852 member landlords of the RLA.
- 5.10 When asked how far they would be willing to lower their rent in light of the LHA reforms, 71% indicated not at all, 23% less than 10 per cent, and 6% between 10 and 20 per cent.
- 5.11 When asked what were the most common problems landlords faced with tenants on housing benefit, the most popular responses were LHA tenants failing to pay rent at 42%, followed by the allied answer of inability to obtain direct payment (34%), this was followed by administration problems (24%).

6. Transition arrangements

- 6.1 One of the most worrying aspects of the current reform package for 2011/12 is the attention paid to transition arrangements. On a spending basis, the £40m made available in the Budget per annum to cover additional discretionary housing payments pales into insignificance in comparison to the near £2bn of cuts per annum by 2014/15 particularly bearing in mind this must cover the social and private rented sector reforms.
- 6.2 The Chartered Institute of Housing estimates this equates to about £8.30 per year per case. In England this would support around 60,000 who face the maximum loss from the 30th percentile change for one year (leaving nothing for social sector claimants or those facing having their LHA capped) this is equivalent to just 1.5% of the entire caseload. The total increase in spending is less than 2.5% of the total package of housing benefit cuts.⁵

⁵ CIH Briefing paper on the impact of changes to housing benefit and local housing allowance in the Budget (July 2010)

- 6.3 The need for proper thought going into transitions does not stop there. Some landlords will undoubtedly have tenants facing large rent deficits and unable to meet their obligations under their tenancy agreements. Some will probably come to amicable arrangements as most landlords have a reticence of going to court, perhaps at least waiting until the tenancy is due for renewal. Some, however, either by choice or force will end up taking possession proceedings. This will place an additional burden on county courts at a time when 54 spread across the country are earmarked for closure. The DWP impact assessment makes no estimate of this additional court load.
- 6.4 Nor does the impact assessment make any assessment of the additional strain that will be placed on local authorities, their housing staff, and pressure to find alternative accommodation.
- 6.5 For particularly hard to house claimants, such as those leaving hostels and with mental and other illnesses, charity and local authority run schemes will suffer, as claimants' benefit does not meet private sector rents. At the very least, some additional funding should be made available to sustain these schemes.

7. The policy objectives of the 2011/2012 reforms

- 7.1 Summarising, it is indisputable that the reforms will help cut the housing benefit bill. However, the DWP impact assessment is crude, because it takes no account of the different demand for property in local areas. Simply saying that 30% of the market is open to rent at the levels of benefit that claimants are being paid, takes no account of the wider market context and competition for homes in any particular area, which as we have shown can be fierce in many of the areas with LHA claimants.
- 7.2 As we have tried to illustrate, a significant proportion of LHA claimants, probably more than half, live in areas of high demand for housing and therefore are going to find it difficult to compete for available homes. There are social and economic consequences and costs that go with this, in terms of overcrowding, increasing concentration of claimants into particular areas, difficulties for employers in recruiting people in low paid employment, homelessness and more multi-generation families under the one roof, with the tensions that creates.
- 7.3 The 'levelling the playing field' argument is easy to convey, but as we have shown a majority of LHA claimants are either in work, or are relatively new claimants, who have been forced to claim by recent economic conditions. Those in work by definition do not need incentive to find it. Having LHA that covers median rents however, may help them live in areas where there is employment and where they will struggle to find accommodation at the 30th centile.
- 7.4 For those who are claiming as a result of short-term unemployment caused by the recent recession, there are issues of fairness and practicality. Much of the rest of the housing support framework, such a mortgage interest support, is based on the premise that it is better to keep a person or family in their home. The stability that provides aids their job search. This policy could see a person and their family faced with short-term unemployment, having to move because their median rent is no longer covered by LHA, causing them to move away from the employment market they know best and creating significant disruption in their lives at a time when all they want to do is find that next job. Given the

profile of a lot of those on LHA, it is by no means certain that the policy will incentivise claimants back to work and could have the opposite effect of making their job searching more difficult.

- 7.5 There is also debatably an issue of fairness in terms of a lot of people facing short-term unemployment, who previously would have had their full rent paid, will now have to move or face significant shortfalls, and who if they were in owner-occupation, would get more generous support.

8. What the reforms will not do

- 8.1 It is worth remembering that LHA has only been in existence nationally for two-and-a-half years and yet in that time has experienced significant tinkering or proposed reforms. The 2011/12 reforms act as a sticking plaster to aid deficit reduction, rather than resolving some of the fundamental issues that go to the heart of problems with this method of paying housing benefit. Some may not like the fact that rents will congregate around the LHA 'going-rate', but these reforms do not resolve that, and simply move the 'going-rate' to the 30th centile. We believe that the benefits of a quicker system, outweigh these costs of bunching around the LHA rents, but some landlords feel very aggrieved that the system no longer reflects a premium for better quality accommodation or even different types of property, which the market does, in terms of house, flat, bungalow, etc.

- 8.2 The reforms equally do not resolve some of the issues around the casting of Broad Rental Market Areas. Nor do they tackle the issue of direct payment, which we will come to, but first want to focus on what we see as the most unfair and damaging of the reforms announced at Budget time.

9. Linking housing benefit to Consumer Price Inflation from 2013/14

- 9.1 We believe this is the most severe aspect of the current proposals for reform. There is a large body of evidence going back long periods, which shows that rental growth tracks average earnings very closely. Annex 2 illustrates a chart produced by HM Treasury in February of this year, which shows just that over the past decade.

- 9.2 Long run average earnings growth in the UK tends to average about 4% per annum. The Bank of England on the other hand has the explicit target of maintaining CPI inflation at 2% per annum.

- 9.3 The consequences of such a difference are stark. The Chartered Institute of Housing has calculated that in some areas after the changes have come into place, it could take as little as 2 years for there to be no properties available that could be paid for by the LHA in some areas.⁶

- 9.4 In turn, the consequences must either be to eat into claimants other income, lead to greater indebtedness or greater levels of rent default. None of these seem particularly palatable.

- 9.5 It could be argued that working households have to juggle their housing costs and other spending priorities, but benefit claimants often start from a different

⁶ CIH Briefing paper on the impact of changes to housing benefit and local housing allowance in the Budget (July 2010)

position in terms of debt and income. More than half of households with serious debt problems are in the very lowest income group of less than £7,500 a year.⁷ Working households will also tend not to be faced with an unremitting erosion of their housing purchasing power.

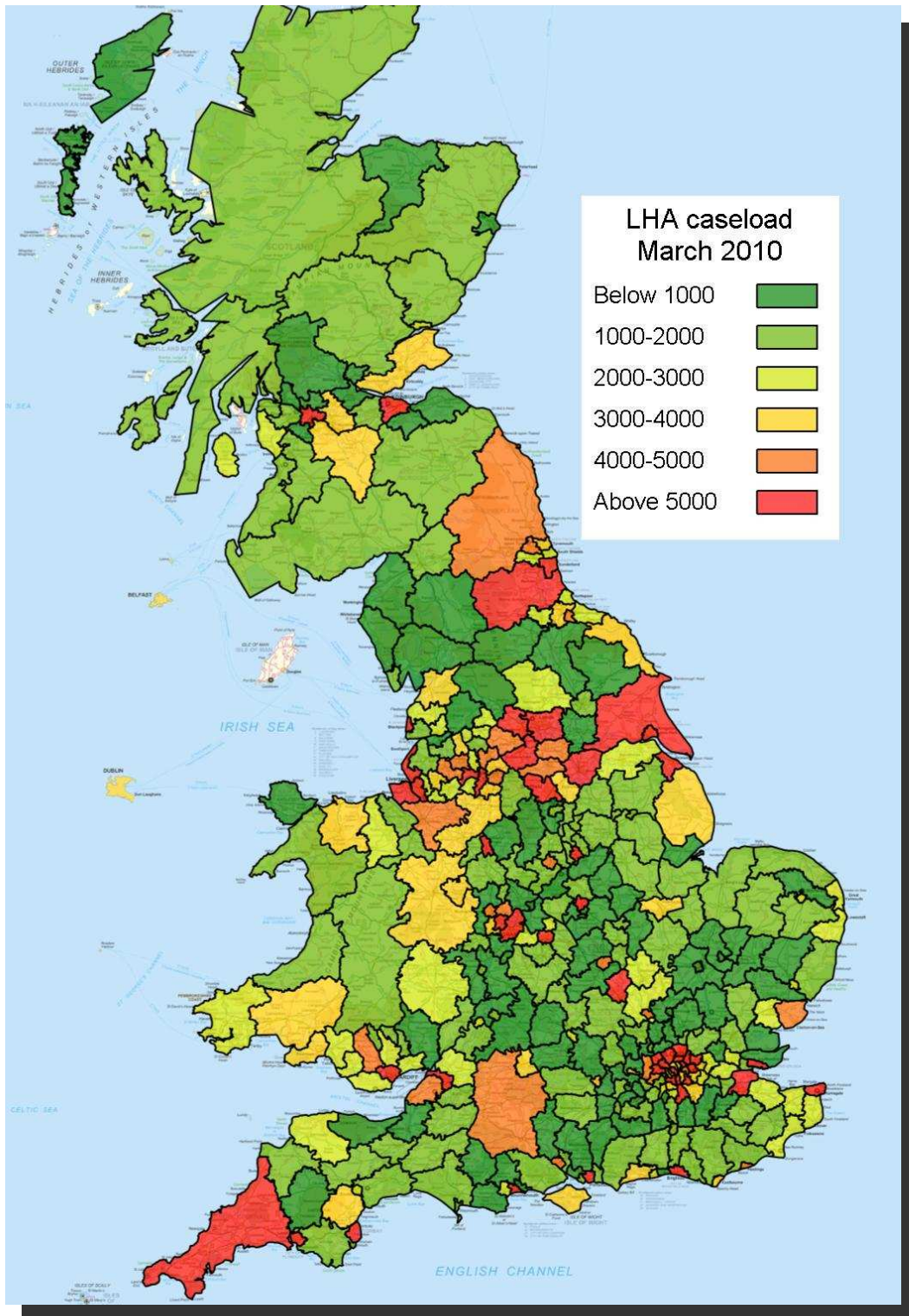
- 9.6 On a more technical basis it does not seem right that a benefit meant to cover a person's housing costs, should be set by an index that incorporates everything from the price of sausages to net curtains. Rent makes up a relatively small proportion of the current basket of goods that form the CPI, because the majority of the population are not renters. Even if the index is reformed to include mortgage costs this will not wholly resolve the issue because approaching half existing homeowners have no mortgage and therefore mortgage costs do not figure in their basket of goods.
- 9.7 Although the differences may appear small, a per cent or two a year, the consequences of getting caught on the wrong index can be severe. History illustrates this through the experience of pensioners.

10. Direct payment

- 10.1 Time after time speaking to landlords over the past couple of years the main issue that has been on their agenda has been the restoration of choice of payment of benefit to claimant or landlord for those renting in the private rented sector.
- 10.2 There was a unambiguous commitment to restoring the choice of paying benefit to claimants or their landlords made by the Conservative Party in opposition – see annex 3. No other policy probably gained more landlord votes in the past election.
- 10.3 We get regular feedback from landlords that have suffered significant rent arrears from LHA claimants of the order of thousands and sometimes tens of thousands of pounds, who either know how to play the system, or are in the unfortunate position of having to juggle paying their rent vis-à-vis other commitments and debts. The situation can only deteriorate with the proposed cuts in local housing allowance payments. Will local authorities have the resource to cope with the increase in 'vulnerability' claims at a time when their own departmental budgets (and headcount) are being squeezed?
- 10.4 We urge the new Government to deliver on the Conservative Party's promise, made in opposition, to restore choice of payment to tenant or their landlord.

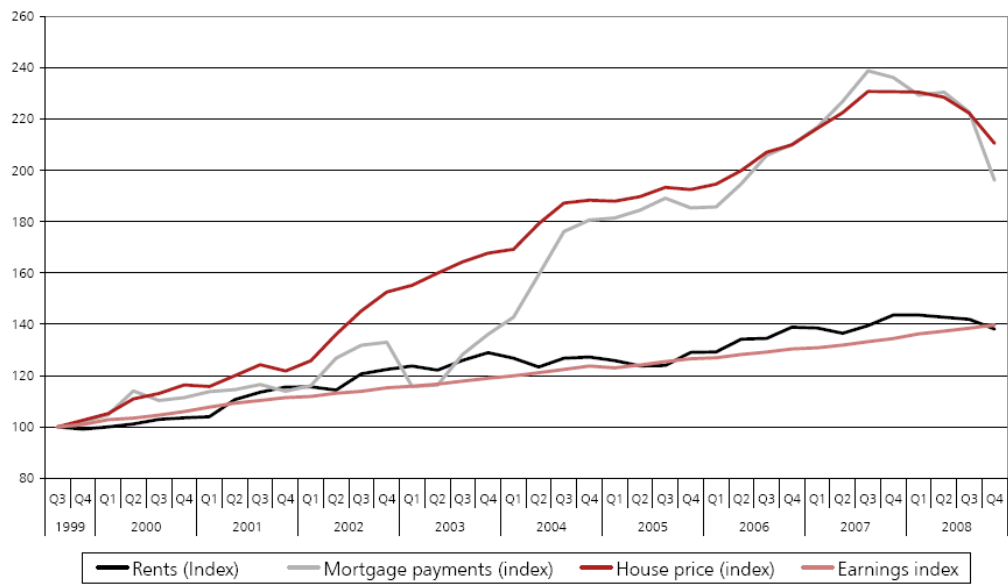
⁷ The Griffiths Commission on Personal Debt, Centre for Social Justice, March 2005

Annex 1 – LHA Caseload by Local Authority – March 2010, kindly supplied by Hometrack



Annex 2 – Comparison of rents, mortgage payments, house prices and earnings

Source: Investment in the Private Rented Sector, HM Treasury, Feb. 2010



Sources: Survey of English Households, Communities and Local Government; Survey of Mortgage Lenders, Communities and Local Government; Department for Work and Pensions.

Annex 3 – Conservative Party statement on direct payment

Source: www.conservatives.com

Increasing the housing supply and helping vulnerable tenants

Thursday, October 22 2009



The Conservatives have announced proposed changes to the Local Housing Allowance aimed at increasing the supply of housing and helping the most vulnerable tenants.

Grant Shapps, the Shadow Housing Minister, explained that under a Conservative government tenants will be able to choose to have their housing allowance paid direct to landlords instead of themselves.

He said that the current system has failed both tenants and landlords and has led to a severe restriction in housing supply for affordable rent, with some landlords routinely including the words "NO HB" in their adverts.

Grant reasoned that our proposal will destigmatise the system and increase the amount of affordable homes available, and he added:

"The current situation is bad for everyone, and I can see no reason why people on Local Housing Allowance shouldn't enjoy the freedom to have their Housing Benefit paid direct to their landlord."

Shadow Work and Pensions Minister, Andrew Selous added:

"We believe that tenants should have the choice of where their rent money is paid to, especially if it makes the difference between a property being available to them or not. The government are blind to the problems that low income tenants are facing and should restore this choice to tenants now".